International Shoe Co.

1509 WASHINGTON AVENUE

St. Louis, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1941

1941

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St. Louis, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1941

December 31, 1941

To Our Stockholders:

Financial report showing the results of the International Shoe Company's operation for the fiscal year ended November 30, 1941 is submitted herewith.

Net earnings, after taxes, for the year were $7,207,037 which represents an earning of $2.15 a share on the Common Stock. This compares with $6,473,611 or $1.93 a share last year.

Net sales to customers were $116,530,243 compared with $89,257,329 last year.

The Company's own supply plants (tanneries, cotton mill, rubber plant, etc.) produced during the year for its own use shoe materials and supplies to the value of $59,011,631 which combined with our sales made an aggregate of $175,541,874 business transacted.

Our factories produced 56,609,462 pairs of shoes, against 45,426,619 last year (canvas rubber soled shoes excluded).

The Company's current assets of $69,015,831 are 9 times its current liabilities of $7,417,380, which include a reserve for income and excess profits taxes of $2,785,000.

PRODUCTION AND SHIPMENTS

Early in the year the demand for certain types of shoes began to exceed our usual 8 hour day productive capacity, and by mid-year the increased demand had become so general that almost all of our manufacturing plants operated in excess of 40 hours per week for several months in an effort to fill our customers' orders as promptly and completely as possible.

The number of pairs of shoes produced was the greatest in the Company's history, exceeding the year 1929 by a substantial amount, even though the present basic operating week is 40 hours in contrast to the 54 hour week in 1929.

Despite production limitations, net sales, in number of pairs of shoes exceeded any previous year, while in dollars they were greater than in any year since 1929.

An even flow of shoes for the United States Government has become part of our regular daily output. While our production of shoes for the Government is larger than that of any other company, Government business represents a relatively small part of our total volume—approximating only 7% of net sales in dollars for the year. The increase in net sales of civilian shoes over last year accounted for $23,400,000 of the total increase of $27,272,914.

SHORTAGES OF MATERIALS

In general, until late in the year, the Company experienced comparatively little difficulty in obtaining materials. While it was necessary to be unusually alert in buying, and while our factory management had to use ingenuity in getting along without some scarce materials, only with respect to crude rubber were we faced with curtailment in the use of a major material.

Now, however, a number of important materials are becoming quite scarce, and recently shortages of certain types of sole leather became so acute that the Company was compelled reluctantly to change its specifications from leather counters to first grade fibre counters in certain types of women's shoes.

WAGES

Three wage increases (April, July and December) were put into effect this year. While the new rates applied only in part to the year, they establish an increased cost of approximately $5,000,000 per annum at our present rate of operation. Continuous full time operation, together with a considerable amount of overtime, greatly improved the weekly earnings of the Company's employees.

WORKING CAPITAL

In comparison with last year, Accounts Receivable and Inventories are substantially higher, while Cash shows, by way of offset, a large decrease. Accounts Receivable were affected by both the higher price level and the greater volume of business, while inventories were affected principally by the higher price level.

For some years the Company has maintained large cash balances as protection against a rise in prices which would cause larger amounts of working capital to be required for Accounts Receivable and Inventories. While cash balances have been decreased some $10,000,000 this year, the Company maintains its strong financial condition and is in a most favorable position to meet further increases in general price levels.

INVENTORY VALUATION—"LAST-IN FIRST-OUT" METHOD

The valuation of inventories in the accompanying balance sheet has been determined by the "Last-In First-Out" method with respect to principal raw materials (hides and leather) and on the basis of the "Lower of Cost or Market" with respect to all other items.

The "Last-In First-Out" method was provided for in the Federal Revenue Act of 1939. Late in 1940 the Company made plans to adopt this method with respect to its principal raw materials beginning with the fiscal year 1941.

The purpose of the plan is to avoid, during wide movements in the general price level, some of the artificial profits and losses which inevitably result from appreciation or depreciation in inventory values under the old method of "Cost or Market—Whichever is Lower." The Company's basic raw material, hides, is one which has been subject to the widest price fluctuation, particularly in time of war. Under this plan inventories are valued at $3,026,579 less than their valuation would have been under the former plan, and net income is less by $1,159,872.

DEPRECIATION

For many years the Company's plan of depreciation of physical properties has resulted in a charge to cost of an amount greater than that allowed by the Government for income tax purposes. Beginning with this year, the plan has been changed so that the amount is approximately the same as that allowed for tax purposes in accordance with a decision as to our depreciation rates by the Board of Tax Appeals in 1938. Under the new plan, depreciation for the year is $405,779 less than it would have been under the plan used in previous years and net income is more by the same amount.

INCOME AND EXCESS PROFITS TAXES

The amount shown as provision for income and excess profits taxes was determined under the Federal Revenue Act of 1940 as amended. Under present law, the Company can earn approximately $1.73 per share without being subject to excess profits tax in the fiscal year which will end November 30, 1942. This is determined under the average earnings option. The Company's invested capital as defined by the Revenue Act for excess profits tax purposes, can not be finally determined at this time, but our best information indicates it will approximate $83,000,000.

The net earnings for the year as shown in the income account, except for minor adjustments, are the same as the amount of taxable income as determined under the Federal Revenue Act.

PREFERRED STOCK

At the annual stockholders' meeting held January 27, 1941, it was voted to discontinue the authorization to issue Preferred Stock. No Preferred Stock had been issued since December 1, 1933, when all outstanding Preferred Stock was called, redeemed and retired. The Company's Capital Stock now consists of No Par Common Stock only. There are 3,350,000 shares issued and outstanding with a total authorization of 4,000,000 shares.

IN CONCLUSION

It must be realized that the year has not been an easy one and now that war is upon us, the nation's problems become acute. This places on us added obligations which must be met with patience, tolerance and loyalty. Every group has its part to play in our national life. With full cooperation of our entire organization, we shall face the problems of 1942 with courage and determination to solve them successfully.

For the Board of Directors

Frank C. Rand
Chairman of the Board.

Byron A. Gray
President.

INTERNATIONAL

CONSOLIDATED

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ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 11,551,117.81
United States Government Tax Notes — Series "B", $3,001,200.00, and Defense Bonds, $50,000.00		3,051,200.00
Accounts Receivable:		
Customers, less Reserve for Cash Discounts and Doubtful Accounts	$ 20,643,335.45	
Traveling Advances to Salesmen and Sundry Accounts	93,576.58	20,736,912.03
Inventories:		
At Lower of Cost or Market:		
Manufactured Merchandise	10,893,320.47	
Merchandise in Process and Supplies	10,996,333.34	
At Cost (Determined on the "Last-In, First-Out" Method)		
Raw Materials—Hides and Leather	11,786,947.49	33,676,601.30
Total Current Assets		69,015,831.14
Expenses Paid in Advance—Insurance Premiums, Taxes, and other Deferred Charges to Operations		405,523.69
Employees Notes Receivable (Under Installment Purchase Plans) secured by 3,400 shares of Company's Own Common Stock		57,537.41
Company's Own Common Stock—7,500 shares at Net Cost (At Quoted Market Prices $202,500.00)		193,421.91
Advances to ($1,000,000.00) and Investment in Associated Companies		1,053,180.00
Investment in Stocks of other Companies, Etc. (less Reserve)		246,419.76
Physical Properties at Tanneries, Shoe Factories, Supply Departments, and Sales Branches (Based on Appraisal as of April 30, 1925, plus subsequent Additions at Cost):		
Land and Water Rights	$ 2,019,159.82	
Buildings and Structures	21,844,658.44	
Machinery and Equipment	18,735,155.03	
Lasts, Patterns, and Dies	1.00	
Total	42,598,974.29	
Less—Reserve for Depreciation	25,715,567.77	
Net Depreciated Value of Physical Properties		16,883,406.52
Total		$ 87,855,320.43

SHOE COMPANY

ALANCE SHEET

er 30, 1941

LIABILITIES

Current Liabilities:		
Accounts Payable for Merchandise, Expenses, and Payrolls		$ 4,400,875.06
Officers, Stockholders, and Employees Balances		231,505.11
Reserve for Federal Income Taxes including Excess Profits Taxes		2,785,000.00
Total Current Liabilities		7,417,380.17
Reserve for Contingencies		550,000.00
Insurance Reserves		805,098.10
Capital Stock:		
Common Stock — Authorized 4,000,000 shares without Nominal or Par Value, whereof Issued and Outstanding — 3,350,000 shares	$ 50,250,000.00	
Earned Surplus	28,832,842.16	
(Of the Earned Surplus, $193,421.91 used for the purchase of Company's Own Common Stock as per Contra)		
Total Capital and Surplus		$ 79,082,842.16
Total		$ 87,855,320.43

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME ACCOUNT

For the year ended November 30, 1941

Net Sales of Shoes and Other Manufactured Merchandise		$116,530,243.84
Cost of Shoes and Merchandise Sold, after charging Operating Expenses, Maintenance of Physical Properties, Selling, Administrative, and Warehouse Expenses, and Credit Losses, less Discount on Purchases	$105,929,054.13	
Depreciation of Physical Properties	1,040,286.96	106,969,341.09
NET OPERATING PROFIT		9,560,902.75
Miscellaneous Income		130,177.18
NET EARNINGS		9,691,079.93
Provision for Income Taxes including Excess Profits Taxes of $146,767.46		2,484,042.43
NET INCOME FOR YEAR		$ 7,207,037.50

COMMON STOCK CAPITAL AND CONSOLIDATED SURPLUS ACCOUNT

Common Stock Capital and Surplus, as at November 30, 1940:		
Common Stock Capital (Outstanding 3,350,000 shares)		$ 50,250,000.00
Earned Surplus		28,310,804.66
		78,560,804.66
Net Income, for the year ended November 30, 1941		7,207,037.50
		85,767,842.16
Dividends:		
Common Stock, $2.00 per share	$ 6,700,000.00	
Less—Dividends on Company's Own Common Stock	15,000.00	6,685,000.00
Common Stock Capital and Surplus, as at November 30, 1941		79,082,842.16
Divided as follows:		
Common Stock Capital (Outstanding 3,350,000 shares)	50,250,000.00	
Earned Surplus	28,832,842.16	$ 79,082,842.16

PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

St. Louis, Missouri, December 24, 1941.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Consolidated Balance Sheet of the International Shoe Company and Subsidiary Companies as of November 30, 1941 and the statements of Consolidated Income and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Under the customary terms of the rental and royalty agreements covering machinery leased by the International Shoe Company, it is liable to the lessor for deferred license fees which are payable when such machinery is returned to the lessor, together with all return freight and repair charges. It is the consistent accounting procedure of the Corporation to charge as operating expenses all current rentals and royalties.

A petition is pending before the United States Board of Tax Appeals for re-determination of prior year's income tax liability of the Parent Company, the contingency with respect to which is substantially provided for in the accounts.

The International Shoe Company, during the fiscal year, adopted the "last-in, first-out" method of valuing raw materials (hides and leather) which has resulted in a lesser valuation of said inventories (by the amount of $3,026,579.08) than would have resulted if the method of pricing used in past years had been followed. The Company also reduced charges for depreciation by the amount of $405,779.69 to conform its accounts more closely to the allowance heretofore made by the Bureau of Internal Revenue. These changes resulted in a net income (after income and excess profits taxes) of $754,092.53 below the amount which would have resulted from the continuation of the former accounting procedures.

In our opinion, the accompanying Consolidated Balance Sheet and related statements of Consolidated Income and Surplus present fairly the consolidated position of the International Shoe Company and Subsidiaries at November 30, 1941 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes made in the basis of valuing raw materials and in charges for depreciation referred to in the preceding paragraph, which have our approval.

PEAT, MARWICK, MITCHELL & CO.

OFFICERS

Frank C. Rand	Chairman of the Board
James T. Pettus . . .	Vice-Chairman of the Board
Byron A. Gray	President
Andrew W. Johnson . .	Vice-President and Treasurer
Paul B. Jamison . . .	Vice-President
Oliver F. Peters . . .	Vice-President
H. Edgar Jenkins . . .	Vice-President
Arthur B. Fletcher . .	Vice-President
Dickson S. Stauffer . .	Vice-President
William N. Sitton . . .	Assistant Treasurer
Robert O. Monnig. . .	Comptroller and Asst. Sec'y
Carl E. Brueckmann . .	Secretary

DIRECTORS

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Samuel Bown
Clarence H. Fielder
Arthur B. Fletcher
Byron A. Gray
H. Roy Green
Edward J. Hopkins
Fred Hume
Lewis B. Jackson
Paul B. Jamison
Albert H. Jenkins
H. Edgar Jenkins
Andrew W. Johnson
J. Lee Johnson
Robert L. Jordan
Robert O. Monnig
William H. Moulton
Oliver F. Peters
James T. Pettus
James E. Quinn
Edgar E. Rand
Frank C. Rand
Joseph O. Rand
William N. Sitton
Dickson S. Stauffer

TRANSFER AGENTS

Manufacturers Trust Co., New York, N. Y.
Mississippi Valley Trust Co., St. Louis, Mo.

REGISTRARS

Guaranty Trust Co., New York, N. Y.
St. Louis Union Trust Co., St. Louis, Mo.

SALES BRANCHES

St. Louis

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.
Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

New York

Morse & Rogers

Boston

Hutchinson-Winch

Manchester, N. H.

Great Northern Shoe Co.
Interstate Shoe Co.

SHOE FACTORIES AND SUPPLY PLANTS

Missouri

Bland
Cape Girardeau
De Soto
Fulton
Hannibal
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Charles
St. Clair
St. Louis
Sikeston
Sullivan
Sweet Springs
Washington
Windsor

Illinois

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

New Hampshire

Claremont
Manchester
Nashua
Newport

Kentucky

Paducah

Arkansas

Malvern

TANNERIES

Illinois

South Wood River

Missouri

St. Louis

New Hampshire

Manchester
Merrimack

North Carolina

Morganton
North Wilkesboro
(Extract Plant)

Pennsylvania

Philadelphia

West Virginia

Marlinton